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SUBJECT: Protests Follow Hesse/Koch Austerity Plan of Less Money, Longer Working Hours

11. SUMMARY: Hesse Minister-President (M-P) Roland Koch's announcement of austerity measures, including a one-billion Euro cut in the Hesse state budget, longer working hours for public employees, cuts in wages and subsidies, and the sale of state assets resulted in demonstrations by public sector unions as well as allegations that Koch bought this year's election on credit. On the heels of a period of free spending in the run-up to Hesse elections in February that resulted in record debt, Koch (CDU, Christian Democratic Union) is keen to demonstrate fiscal discipline while attacking the Schroeder government on economic policy. A tenacious politician with national political ambitions, Koch must see the austerity measures through to prove himself a credible candidate for chancellor and in view of Hesse's serious budget gap. END SUMMARY.

Budget Cuts Hit Public Employees and Social Spending

12. On September 2, Hesse M-P Koch announced "Operation Safe Future," including Hesse's largest ever budget cut of one billion Euros. After three years of increased spending and the prospect of a third unconstitutional budget, Koch's announcement will affect both public servants and citizens. In its defense, Koch said painful steps were necessary to save Hesse's future:

-- Public servants (Beamte) will have to work up to 42 hours (currently 38.5) per week. Hesse will cancel and renegotiate wage agreements for other employees (Angestellte). Bonuses will be cut, and no new personnel will be hired.

-- Hesse will cut subsidies by one-third (mainly by reducing payments to social institutions).

-- Hesse will sell state property, mainly housing and its stake in the Frankfurt Trade Fair (the City of Frankfurt must agree).

13. In a letter to public employees, Koch said that Hesse faces a "disastrous" fiscal situation where only extreme measures can avert layoffs. As in the private sector, public employees must start working longer hours. Koch says 2004 growth is likely to be only one percent, not two percent as claimed by the SPD-Green government.

Hesse Opposition: Koch Made His Own Bed ...

14. Hesse Greens chairman Matthias Berninger blamed Koch for the "biggest election fraud in Hesse's history" for announcing drastic cuts after having overspent prior to this year's election. Tarek al Wazir (Hesse Greens caucus leader) said that cutting 127 million Euros in social spending will mean job losses and fewer programs for AIDS prevention, consumer protection, and childcare. SPD reps called for the resignation of Hesse Finance Minister Karlheinz Weimar. Even representatives of Koch's former coalition partner FDP said that Hesse has no long-term strategy for reducing public debt and called on Koch to stop opposing the Schroeder government's tax reform package.

15. The public employees' association (Beamtenbund) condemned the Koch announcement and staged the first protests within 24 hours of Koch's announcement. The Verdi trade union (which represents public workers) continues to reject any renegotiation of wage agreements. This labor-management standoff likely will continue and could become embroiled in party politics.

Koch Must Dig Out of Hole Before National Elections

16. COMMENT: The austerity plan is a drastic change of course for potential chancellor candidate Koch and for Hesse (which recorded the biggest budget and debt increase of all west German states last year), but it comes as no surprise. Koch knows he must fix Hesse's public sector and change his image, as even Bavarian CDU premier Edmund Stoiber (and former contender for chancellor) publicly admonished Koch to "put his own house in order" before preaching on national politics. With a new CDU majority in

the Hesse legislature, Koch now has the legislative muscle to trim the spending excesses of his former coalition government (CDU-FDP) and to see this austerity plan through.

17. The austerity measures angered Hesse's civil servants, and cuts in social spending will give Hesse's voters a visible reminder of hard times. Koch told CG earlier this year that he will see the budget cuts through at all costs. Koch knows that he must mop up Hesse's red ink in time for an economic recovery if he is to become a credible candidate for chancellor in 2006. END COMMENT.

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